

Andersen  
ENERGY

Redacted

To: John E. Stewart@ANDERSEN WO  
cc:  
Date: 09/25/2001 02:05 PM  
From: Carl E. Bass, Houston, 237 / 2314  
Subject: Raptor memos

FYI.

Forwarded by Carl E. Bass on 09/25/2001 02:04 PM

To: Debra A. Cash@ANDERSEN WO, David B. Duncan@ANDERSEN WO, Michael C. Odom@ANDERSEN WO  
cc:  
Date: 09/25/2001 02:05 PM  
From: Carl E. Bass, Houston, 237 / 2314  
Subject: Raptor memos

I have several comments on the memos attached to the Lotus Notes from Dave Duncan, dated September, 14, 2000. Please note that these are the first copies of these memos that I have seen.

1. Memo dated December 31, 1999 – This memo discusses the second structure, that is LJM II. I was not consulted on Issues 2 or 3 discussed in this memo. I recall being consulted at some point in the process on Issue 1 in this memo. This is consistent with Interpretation I-2 (p. 330) in our publication, *Accounting for Leases*.
2. Memo dated March 28, 2000 – The memo should clearly state which issues I was consulted on, those being Issues 1, 2, and 6. With respect to Issue 2, you may want to consider that the use of the cost method in effect does not permit any "upside" income effect with respect to Enron share price movement but that the impairment test for each entity will require any "downside" movement of Enron stock to be accounted for prior to settlement. With respect to Issue 6, the memo also implies that the value of the Enron shares used in the impairment test includes the restriction in order to determine fair value (see also third paragraph under caption entitled "Transaction Structure"). I note that the memo dated May 9, 2001 is inconsistent with that accounting. I believe the March 28, 2000 memo should make clear that the valuation of the stock is done using fair value. I am not aware that we ever discussed "how to fair value." I was not consulted on the other issues. Finally, I am not aware that Ben Neuhausen was consulted on any of these issues at the time.
3. Memo dated July 28, 2000 – I was consulted on this issue and agree with the documentation.
4. Memo dated December 28, 2000 – The conclusion implies that I was consulted with and concurred with all issues discussed in this memo. That is not accurate. I was only consulted on whether the client could consider cross collateralized entities in the assessment of the creditworthiness of these entities. My advice at that time was that in order to assess the creditworthiness of the Raptor entities in their entirety, all of the Raptor entities would have to be cross collateralized, legally and substantively, for the full and complete term of the entities. Absent that, each entity would have to be assessed individually. Two other

alternatives were discussed. Those included (1) allowing Enron to cross collateralize in the manner I discussed above, but that it could be done after yearend but before the release of the financial statements and (2) allowing Enron to transfer its separate interest in these entities to whichever entity was experiencing an impairment issue. With respect to alternative (1), although that would achieve true cross collateralized entities, the fact that it was accomplished after yearend was an audit and practice question as there was no definitive authoritative literature. With respect to alternative (2), I did not believe that there was any substance to this and you could not use unrecorded value in one instrument to offset a decline in value in an unrelated instrument. The engagement team's ultimate conclusion as described in this memo was not one that I was consulted on. Finally, John was not involved in this consultation directly. I did speak to John immediately after our discussions in order to let him know what transpired.

5. Memo dated May 9, 2001 – The assignment issue was also discussed in the consultation surrounding the creditworthiness issue as I have described in point 4 above (see the December 28, 2000 memo discussion). I believe that the memo should document my disagreement with that alternative even though that alternative was ultimately accepted by the engagement team.

---

©2001 Andersen. All rights reserved.  
John E. Stewart